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REGIONAL *Review*

Following an initial consultation document last summer, in February the Department of Trade and Industry produced its first review of regional competitiveness. This document comprises a set of indicators of relative regional competitiveness and the department plans to produce a similar report twice yearly from now on. The department defines regional competitiveness as the ability of regions to generate high income and employment levels while remaining exposed to domestic and international competition. Some of the indicators presented are primarily measures of the outcome of the competitiveness process. Such figures include regional gross domestic product (GDP) and household income per head, the regional labour force participation and unemployment rates. Other indicators, such as labour productivity, the extent of education attainment, R and D intensity and the rate of new firm formation, are reported as sources of differential competitiveness. Finally some indicators, such as average earnings and property rentals, have a rather ambivalent status. In so far as they contribute to regional costs they reduce competitiveness. However, given that they are part of regional incomes, they imply that the region can sustain high incomes and therefore is competitive.

Figure 1 reports the regional GDP per head. As in all the charts, the information is given in index form, with the UK average set at 100. The GDP figures are calculated on a workplace basis. This means that the gross domestic product is here the sum of the incomes of individuals earned from productive services, allocated to the location of their place of work. However, the population base for the per capita figure is taken to be the resident population. This has the effect of boosting the figure for cities where there is extensive inward commuting, because the incomes of the commuters are included in the GDP figures but these same commuters are not part of the resident population. London dominates on this measure. GDP per head is almost 40% higher in London than the UK average. There are only two other regions, the South East and Scotland, with above average GDP per head and these have values (103.9 and 100.2) only slightly above 100. What is clear is that the extensive commuting primarily into London from the South East and Eastern regions significantly boosts the London figure. Note also the very low figures in Northern Ireland, Wales and the North East which have GDP per head values which are respectively 17.4%, 14.9% and 14.5% below the UK average.

Figure 2 shows the total household disposable income per head across regions. These results differ from those in Figure 1 on two counts. First, there is an adjustment for tax, national insurance and transfer payments, such as social security benefit. Second, earned income is allocated to where the recipient lives rather than where he or she works. These adjustments narrow the regional differentials. London is still highest value at 115.4, but the South East, East and South West regional values are also above the UK average at 107.3, 105.4 and 100.7 respectively. The narrower regional differentials in terms of income per head also comes through for lower income regions. The North East, Northern Ireland and Wales are those regions with the lowest household income levels, but now at just over 10% below UK average values. In terms of this income measure, Scotland is 1.4% below the UK average.

The most obvious source of income variations between regions is the average wage rate. Figure 3 presents average hourly earnings for full-time employees across regions. Again, note the very clear dominance of London where the wage is 35% higher than in the rest of the UK. Whilst in general there is a positive relationship between measures of tightness of the regional labour market and the wage, this is not the case for London, where the unemployment rate is relatively high and the labour participation rate comparatively low. However, there is extensive commuting into London and there are low unemployment and high participation rates in the adjoining South East and Eastern regions.

But as the Department of Industry note, high wages must be matched by high productivity if competitiveness is not to be adversely affected. Figures for labour productivity in manufacturing, as measured by gross value added per head, are given in Figure 4. This chart indicates a much more even distribution across regions, with many more regions - including London, South East, Wales, Scotland, North East, North West and Merseyside, and East - above the UK average. However, it is important to stress two points here. First, manufacturing only accounts for around one fifth of the output of the UK economy and comparable data for productivity in service sectors are not available. Second, gross value added per employee is a limited measure of productive efficiency. This is because value-added per employee is determined both by the efficiency and the capital-intensive of production. High labour

productivity might therefore simply reflect high capital intensity which itself is likely to be influenced by the industrial, size and ownership structure of manufacturing in the region.

Other indicators of the potential sources of competitiveness are of interest. The available data on educational differences fails to identify any major variation across regions. However, Figure 5 shows the rate of new firm formation as a percentage of the stock of existing businesses. This again indicates that London is in premier position with a value one third higher than the UK average, whilst Scotland is 9% below the national figure. Figure 6 gives an indication of the R and D intensity of manufacturing. Whilst London does not perform particularly well on this criteria, the South East and the Eastern regions do. On the other hand, the low levels for Wales, Northern Ireland, Yorkshire and Humberside and Scotland are very marked in Figure 6. All these regions have a value less than 50% of the UK average.

It is clear that firms are able to sustain high wages in the regions of East and South East England and particularly in London. The source of this ability is unclear from the figures given by the Department of Trade and Industry. It seems likely to rest in service industries and be related, at least partly, to the industrial and skill distribution in those regions. For example, it is clear that some of the key measures of more dynamic aspects of competitiveness - the rate of new firm formation and R and D intensity - are strongly present in the South East. However, regional competitiveness does not necessarily solve the problems of regional unemployment. In terms of GDP per head, London is measured to be the most competitive region but also has one of the highest unemployment rates, together with high scores in other measures of regional disadvantage, such as a relatively low participation rate and high proportion of the population claiming income support.

Figure 1 - Gross Domestic Product per Head, 1995

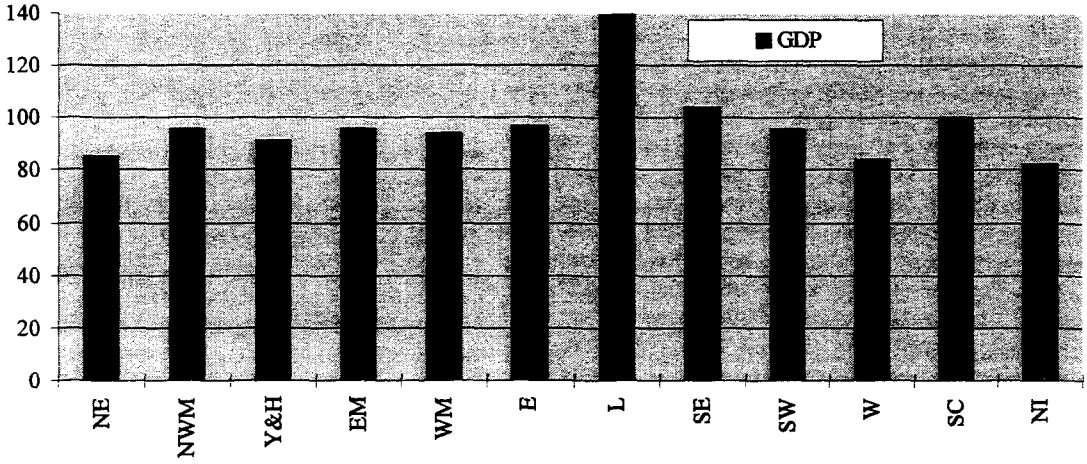

Figure 2 - Disposable Income per Head, 1995.

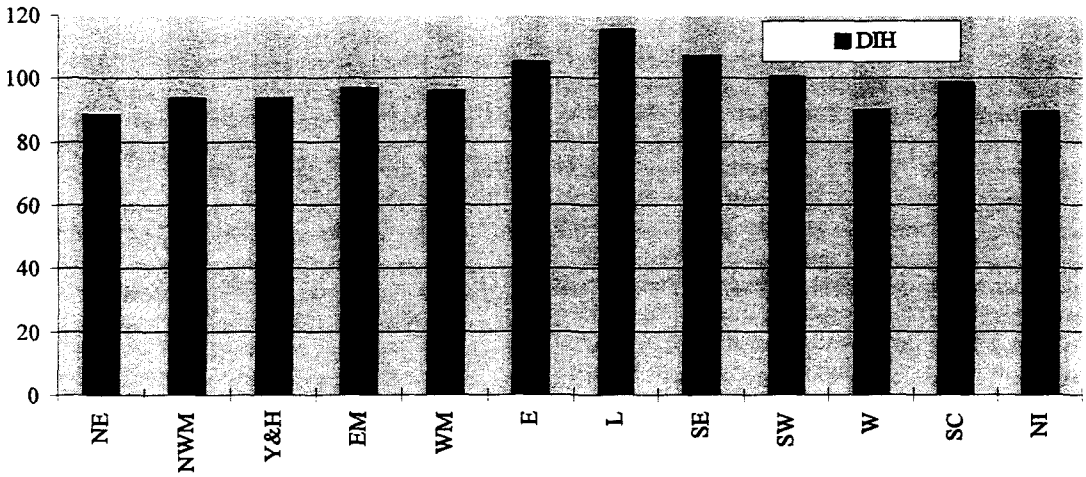

Figure 3 - Gross Average Hourly Earnings, 1997.

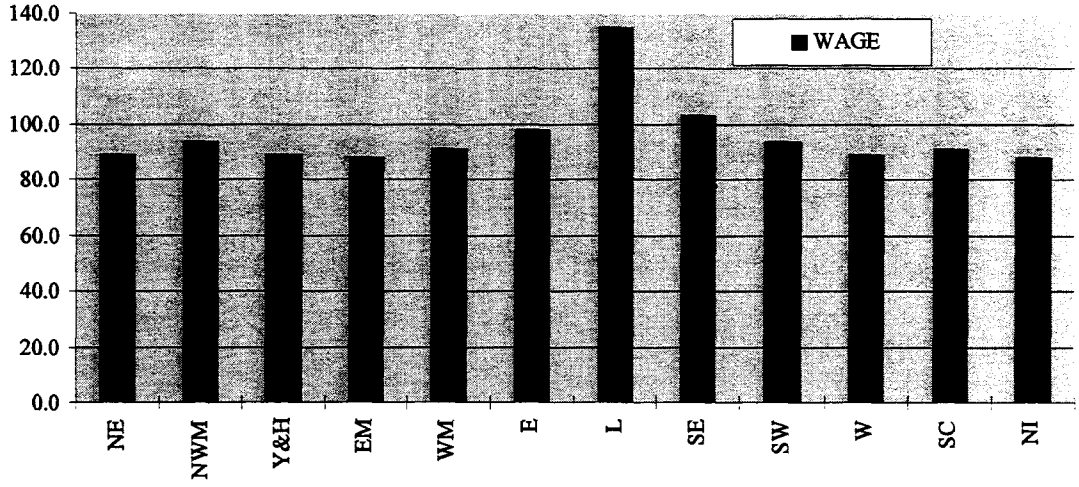

Figure 4 - Manufacturing Gross Value Added per Head, 1995.

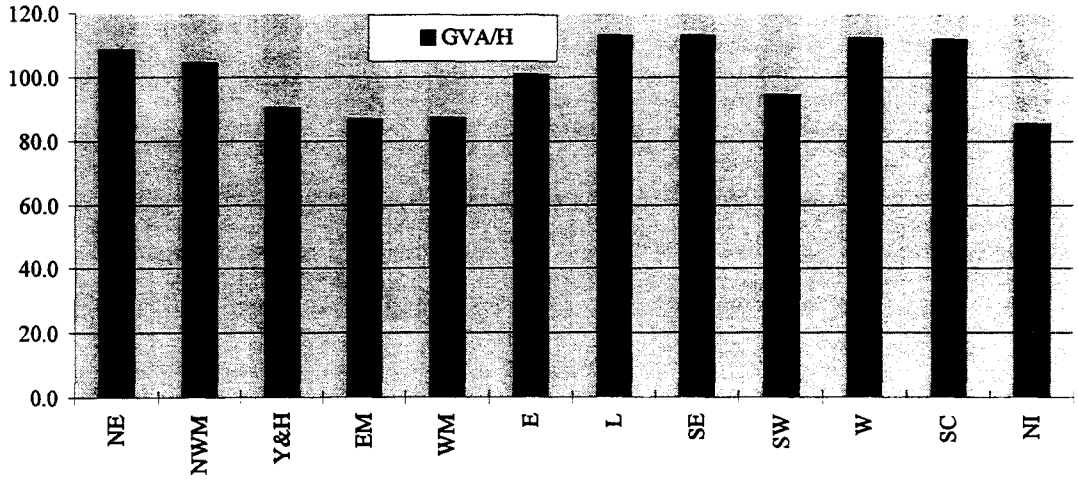

Figure 5 - VAT Registrations, 1996.

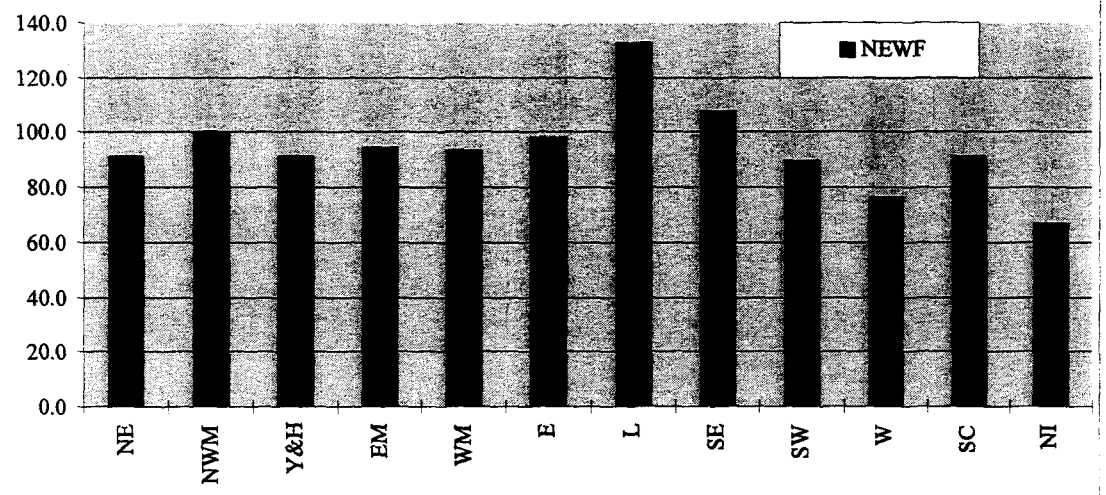

Figure 6 - Business Enterprise R&D for Manufactured Products, 1995